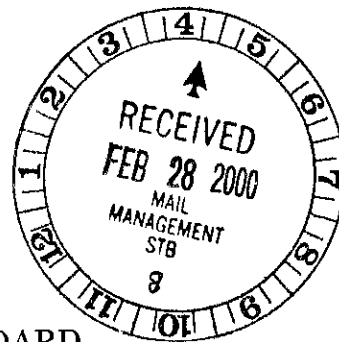


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WRITTEN STATEMENT OF
ROBERT GROSSMAN
CHAIRMAN AND PRESIDENT
EMONS TRANSPORTATION GROUP, INC.



BEFORE THE SURFACE TRANSPORTATION BOARD

IN
STB EX PARTE NO. 582
PUBLIC VIEWS ON MAJOR RAIL CONSOLIDATIONS

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Good morning, Chairman Morgan, Vice-Chairman Burkes and Commissioner Clyburn. I am Robert Grossman, here today on behalf of Emons Transportation Group. We own four shortline railroad companies, a logistics company and an intermodal company and serve the Mid-Atlantic and Northeast regions of the United States and Quebec, Canada. We operate in the Northeast over 260 miles of contiguous main-line track between Portland, Maine and Ste. Rosalie, Quebec, crossing the border at Norton, Vermont. Our principal connection on this line is with Canadian National (CN), although we also indirectly connect in this region with Canadian Pacific (CP) through Iron Road, and with CSX and Norfolk Southern (NS) through Guilford. In the Mid-Atlantic, we operate two shortlines in Pennsylvania, where our principal connections are with CSX and Norfolk Southern (NS), and indirectly with CP through NS. We also operate rail/truck transfer facilities and a rail intermodal terminal and provide warehousing and logistics services.

I appreciate the opportunity to appear before you today to express my views on the timing and regulatory handling of present and future large railroad consolidations. The Board's perception that the likely downstream effects of proposed merger transactions ought to be considered as part of its public interest evaluation is timely and, in our view, essentially correct. The main question, it seems to us, is what are the effects that should be assessed by the Board. We believe that the factors laid out by the Board in its Decision No. 1 in the Burlington Northern Santa Fe/Canadian National (BNSF/CN) case are the right ones to consider. Those factors relate to the goals of the rail transportation policy established by Congress.

These goals, as I understand them, seek for the most part greater efficiency and competitiveness on the part of railroads. We would like the Board to consider, therefore, evidence on whether the efficiency and competition aspects of a particular consolidation will not only be realized promptly, but also whether they can be sustained over the long-term, whether or not there are further consolidations.

We have been very pleased with the outcome of the CN/IC merger. From our perspective, it has been carried out without a hitch. More important, the expanded single-line routings available through the CN system have opened up many new opportunities for our customers in the Northeast. CN provides an efficient link for our customers in that region to source and destination markets in the Midwest and Gulf Coast, markets that before were available to them, if at all, only through more cumbersome

interline routings. These factors have made us stronger, too. I expect that they will help us continue our record of growth in both revenues and pretax income. As you may recall, we supported approval of the CN/IC merger when it was under review by this Board; and we were very happy with the result.

The division of the Conrail system has not gone as smoothly as anyone would have liked. Our Mid-Atlantic and Northeast operations have been adversely affected by the service disruptions that have occurred on both CSX and NS. However, we have obtained from that transaction better competitive options for our customers, with longer single-line routings over both NS and CSX to more locations.

That brings me now to the prospect of present and future consolidations among large railroads. Let me say, first, that I am very dubious about the need for evaluation of what I might call "hypothetical" downstream effects, particularly those that would require a prediction about what other large railroads might do as a competitive response to a combination of two of their competitors. There are many possible paths that these competitive responses might take, and the merger path is only one of them. Who can judge which path will be selected, or even which path will be the more likely one? As the Board has previously recognized, the marketplace has worked well in making these kinds of judgments, and I believe it will continue to work well.

Let's use the proposed BNSF/CN transaction as an example, since that transaction precipitated this hearing. There are now two large railroads competing head-to-head throughout the West - UP and BNSF - and there are two nearly-as-large railroads competing with each other almost everywhere in the East - NS and CSX.

After the BNSF/CN combination, if approved by this Board, there will still be two large railroads in the West and two in the East. While BNSF/CN will be larger than any of the others, it will not be very much larger. Its incremental routing advantages, while beneficial to some customers and connecting shortlines in some circumstances (including ours), do not appear to be advantages so compelling that one can conclude that any of the other railroads **must** find a merger partner of its own. Intensified competition, of course, does tend to evoke a reaction on the part of competitors; but an appropriate course of responsive action could be to increase efforts to improve service and to wring more efficiencies out of operations. Doing so through consolidation with another railroad is only one option, and that option may not be acceptable to the marketplace.

For those reasons, I am generally skeptical of the domino theory; and I am **very** skeptical of that theory in the context of the BNSF/CN transaction. This Board has a well-deserved reputation for protecting competition, not competitors. Buying into the domino theory, in my opinion, would be a mistake.

If a proposed consolidation, such as BNSF/CN, would benefit the public, and if conditions, including conditions to preserve competitive options for shippers located on shortline railroads, can be imposed to protect against any harmful effects of that transaction relative to the status quo, it should be approved by the Board. And, the Board should do so within a reasonable time frame. Delaying the benefits of a good transaction is not in the interests of anyone, other than competitors.

If other large railroads decide later that they need to propose a merger of their own to attain the level of service and efficiency needed to meet the increased competition occasioned by the previous merger, and if the marketplace agrees with that decision, the proposed transaction would still have to be approved by this Board on the merits. The Board's existing rules and standards can be applied in making that judgment.

In summary, the Board's consideration of downstream effects should not encompass any prediction concerning the particular competitive reactions of other railroads.

I mentioned earlier in my statement that I thought the Board should consider whether the efficiency and competition benefits of a proposed consolidation can be sustained in the face of competitor responses, in whatever forms they might take. In addition, the potential for service problems is a downstream effect.

Some railroad consolidations are more likely than others to encounter service problems during the implementation phase. Those that are

essentially end-to-end, it is fair to say, are easier to implement, operationally speaking. They also are less likely to experience service disruptions in the implementation process. The greater the number of variables - or in this instance the more things are being changed in terms of facilities, people and operations - the more likely things will go wrong.

The CN/IC merger implementation, as I have previously observed, went very smoothly, which does not surprise me simply because it was entirely end-to-end and thus involved very few changes in operations, facilities and people. The proposed BNSF/CN combination will be, I believe, similarly easy to implement.

While I do not know the details, I think the service guarantees offered by CN and BNSF strike the right balance between risk and reward. They will provide a real incentive for those railroads to make sure their mergers are carried out as well as can be. If they do, the combining railroads, their customers and the public will be the winners. If they do not, at least the customers will be protected, as they should be. If future merger applicants propose the same kind of guarantees, I think there would be a lot less concern over the issue whether a merger will likely result in service disruptions somewhere down the line.

To summarize, I would urge the Board to stick to its current rules, procedures and standards for evaluating merger proposals. They are based on sound, time-tested theories, and they promote opportunities for meaningful benefits for shippers and the public at large. The service

problems that have occurred following some prior railroad consolidations will not necessarily accompany future transactions. Moreover, in the final analysis, the Board has the ability to require changes in the applicant's post-merger operating plans to assure to the extent possible that potential service problems will be kept to a minimum and that, if they do occur, the problems will be addressed with adequate resources and managerial competence.

I thank you for this opportunity to appear here today.

Respectfully submitted,


Robert Grossman